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From the Private Secretary

MR. HATFIELD
CABINET OFFICE

Security Export Controls

The Prime Minister has seen Sir Robert Armstrong's minute of 29 July (A083/2287). Subject to the views of colleagues, she is content with the recommendations of the Official Sub-Committee on Strategic Exports and agrees that the Departments concerned should discuss with the Treasury how the resources necessary to implement the Committee's recommendations are to be provided.

I am sending copies of this minute to the Private Secretaries to the members of OD.

C. S. Rickett

1 August 1983

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Ref. A083/2287

PRIME MINISTER

Yes not

Security Export Controls

The official committee's recommendations are at paragraphs 3 and 7 (Flags A and B). If you agree then the departments concerned will discuss how the necessary resources can be found (you will see from para 5 that Customs & Excise have doubts).

--- The attached report by the Chairman of the Official Sub-Committee on Strategic Exports invites Ministers to note the progress made in the COCOM List Review since I last reported to you (my minute of 28 February 1983); to confirm that they attach priority to the enforcement of security export controls; to agree the implementation of a package of measures devised to strengthen the United Kingdom's capability to enforce security export controls, and to endorse other actions being taken to strengthen this capability. The recommendations are set out at paragraph 9 of the report.

2. The resource implications of the measures proposed are relatively small, involving at most the allocation of some thirty staff at a cost of £300,000 to duties connected with enforcement. It could be argued that this is the least the United Kingdom should be prepared to do by way of allocating increased resources to a task which is important not only in its own right, but also for our general relationship with the United States. The Departments concerned (Trade and Industry and HM Customs and Excise) will discuss with the Treasury how the additional resources are to be provided. If irreconcilable conflicts of priority emerge, the matter will be referred back to Ministers.

3. In view of the intensive interdepartmental consultations that have gone into the report, it seems unlikely that OD will need to meet to discuss it; but a meeting could be arranged after the Recess if you wish.

4. I am copying this minute to members of OD.



ROBERT ARMSTRONG

29 July 1983

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SECURITY EXPORT CONTROLS

Note by the Chairman of the Sub-Committee on Strategic Exports

Background

1. With his minute of 28 February 1983, the Secretary of the Cabinet forwarded to members of the Defence and Oversea Policy Committee my report on the various issues that had arisen within COCOM following the ending of the dispute with the United States over the Siberian pipeline. Ministers noted the position that had been reached, endorsed certain specific results which had been achieved, and approved the recommended United Kingdom approach to the next stage of the negotiations within COCOM. Since February, the first round of the COCOM List Review has been completed. The second round will begin in September, and a number of potentially difficult issues, particularly as regards their effect on relations between the United States and other COCOM countries, will need to be addressed. Details are at Annex A. The United Kingdom's detailed negotiating position on these issues will be presented for Ministerial endorsement in early September.

The United Kingdom's capability to enforce Security Export Controls

2. In the meantime, officials have been examining the United Kingdom's capability to enforce security export controls. An effective capability is important for a number of reasons. It is in the United Kingdom's own security and economic interests that the Soviet bloc's military capability should not be enhanced by the illicit acquisition of western advanced technology. It is also in our interest to be able to demonstrate to the United States that we share, and are taking seriously, their concerns in this area; if they felt that our response to the present position was unsatisfactory they might be driven to take retaliatory measures which would be damaging to our defence interests and to British industry, as well as being detrimental to the general Anglo/American relationship. Finally, it is in our interests to be able effectively to prevent the export of such advanced technology as is subject to export control: the law must not be flouted with impunity.

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3. An interdepartmental Working Party, under Cabinet Office chairmanship, has accordingly reviewed the United Kingdom's existing capability for enforcement of security export controls. Its broad conclusion was that there was a need to strengthen the existing enforcement activities and make them more effective rather than to introduce new controls. (The conclusions and recommendations are reproduced at Annex B). It recommended that -

- a. experts in high technology should be available to examine suspect shipments of goods at short notice;
- b. HM Customs and Excise should examine the scope for enhanced scrutiny of computer produced schedules of particular consignments for particular destinations;
- c. HM Customs and Excise should create a small team of specialist investigators;
- d. international co-operation with other enforcement agencies should be increased, particularly to tighten controls on exports to the Soviet bloc via third countries;
- e. There should be more co-operation within COCOM on enforcement;
- f. a confidential network of designated officials in the Foreign and Commonwealth Office, the Ministry of Defence, the Department of Trade and Industry and the intelligence agencies should be created;
- g. greater publicity should be given to the penalties to the West of technology transfer and to the increased steps being taken to prevent it;
- h. stiffer penalties for infractions should be introduced and prosecution be undertaken wherever the evidence seem sufficient to obtain a conviction;
- i. an inter-departmental enforcement unit should be created, co-ordinated by the Department of Trade and Industry and reporting to the Sub-Committee on Strategic Exports.

4. If the United Kingdom decides to implement such a package of improvements, it will be important to persuade other COCOM members to take similar steps to improve their enforcement machinery so as to ensure that British exporters are not put at a disadvantage. The implementation of this package by the United Kingdom will not result in a water-tight system of export controls; evaders will continue to try to find ways around the system. Nevertheless, such a package would provide a significant deterrent to those seeking to breach the present arrangements. This would benefit the United Kingdom's interests and would probably go a long way to allay the concerns of the United States.

5. Of the nine measures identified four (a, b, c and d) have resource implications. The basic staff costs involved in implementing the package in full would amount to some £300,000 a year. Details are at Annex C. HM Customs and Excise, who would be most affected, do not believe that they can divert the resources needed to implement these recommendations without detriment to their other responsibilities. They remain under strong pressure to improve their controls in several other areas, for example drugs, textile and steel quotas, pornography, including "video nasties". But the option of implementing only the five measures which have no resource implications would be insufficient to effect an improvement and be largely cosmetic; all nine measures are needed if they are to be effective. Accordingly, Ministers are invited to endorse the implementation of the package as a whole, subject to further consideration of those measures with resource implications between Departments concerned and the Treasury.

6. The implications of the Working Party's report are being drawn to the attention of the Joint Intelligence Committee.

Related matters

7. Ministers will also wish to be aware that in order to strengthen the Ministry of Defence's analytic capability in the field of technology transfer. Approval is being sought separately within the Ministry of Defence for the establishment of a small technology transfer unit within the Defence Intelligence Staff. The task of the unit will be to analyse the target areas to which the Soviet Union attaches high priority; in consultation with other

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Departments to advise our representatives in COCOM; and to supply up to date information to the enforcement agencies. Work is also in hand to examine the effectiveness of the United Kingdom's arrangements for vetting applications for visas for Soviet bloc scientific visitors to enter this country.

Conclusion

8. Unless our enforcement machinery is strengthened, and a high priority attached to work in this field, the United Kingdom risks a number of consequences all of which would be damaging to British interests. We should be failing to implement our COCOM undertakings and failing to help check the illegal flow of high technology to the Soviet bloc. This would be damaging to our defence and strategic interests; damaging in particular to our relationships with the United States; and damaging to British industry.

Recommendations

9. Ministers are invited to -

- a. confirm that they attach high priority to the strengthening of our enforcement arrangements;
- b. note the progress made so far on the current COCOM List Review; and that officials will seek further guidance as necessary;
- c. agree in principle the implementation of the package of measures set out in paragraph 3, subject to further consideration of those measures with resource implications between Departments concerned and the Treasury;
- d. endorse the other actions, described in paragraph 7, which are being taken to strengthen the United Kingdom's capability for security export control.

Signed A D S.GOODALL

Cabinet Office

28 July 1983

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ANNEX A

ACTIVITY IN COCOM FOLLOWING THE ENDING OF THE PIPELINE DISPUTE

Introduction

This note summarises the position reached in COCOM on the issues set out in the report dated 24 February 1983.

List Review

The first round of the current List Review has been completed. Agreement has been reached on a number of items including a tightening of controls on printed circuit boards, and the introduction of new controls on ceramics and spacecraft. As agreed at the COCOM High Level Meeting in April, controls on these items will be introduced by member governments in the autumn. Appendix 1 lists items which have been agreed unanimously or are likely to be agreed in the near future. These have been considered interdepartmentally and are now all acceptable to the United Kingdom; they need to be put into effect by making the necessary amendments to the Export of Goods (Control) Order.

The second round of the Review will start in September with more than half of the total task still to complete. Agreement needs to be reached on a number of important items including computers, robotics, automated industrial control systems and gas turbines. For many items it will be necessary to reach agreement on definitions (for example there is still a need to define features of robot systems) as well as on the substantive issue of how far new controls should extend. Substantial differences between the United States and other COCOM members will have to be reconciled. The British computer industry has already made it clear that it would prefer to continue with the existing unsatisfactory COCOM List entry for computers rather than accept the present United States proposals over software as well as hardware. Ministers will be asked in September to endorse instructions for the United Kingdom negotiations during the second round.

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Other High Technology (including oil and gas)

Detailed consideration of the United States' proposal for control of certain exports of oil and gas equipment and technology has been put off until January 1984 to avoid impeding the progress of the List Review.

Inventory of Emerging Technologies

Agreement has been reached in principle to establish an inventory to give early warning of technologies in the early stages of development the export of which may need to be controlled at a later date. Further discussion has been put off until January. The United Kingdom has now implemented the control of technologies relating to existing List items.

Enforcement and Harmonisation

The COCOM Sub-Committee on Enforcement and Harmonisation will meet at a senior level at the end of September.

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COCOM LIST REVIEW: INTERIM CHANGES

I Industrial List

a. Unanimous Agreement reached on -

- 1300 Machinery for manufacturing printed circuit boards - new item covering sophisticated equipment in this area.
- 1357 Filament Winding Machines (used in the production of materials for rocket motor casings, torpedo bodies and submarine hulls) - limited extension of existing controls.
- 1400 Spacecraft and launch vehicles - new item
- 1564 Substrates for printed circuit boards (viz, high quality versions of the basic component of printed circuit boards, to be used in eg ruggedized military computers or high frequency devices) - extends existing controls to ceramic and metal substrates.
- 1700 Ceramics (for use in high temperature applications in eg aerospace engines and space technology) - new item covering ceramics and precursor materials.
- 1701 Lead Azide (used in manufacture of detonators and initiators) - to be decontrolled because of equivalent Bloc capability.
- 1715 Boron (partial deletion; boron carbide boron nitride and certain borides) now to be covered under List No 1700 ceramics.
- 1757 Compounds and materials (silicon for use in production of advanced microcircuits) - amends and up-dates existing control.

1763 Fibrous and filamentary materials (for, eg, helicopter drive shafts and other lightweight load-bearing structures, and filament-wound aerospace products) - extends existing control to cover newly developed composite materials.

B Agreement near on:

- 1300 Manufactures of ceramic material (for use with other materials in eg aerospace and marine propulsion units) - new item. (Netherlands outstanding.)
- 1400 Floating Docks - new item intended to cover naval applications, (Netherlands and Norway outstanding).
- 1460 Aircraft engines - tightens existing control permanently to cover military gas turbines. (France outstanding).
- 1600 Vanadium (used in production of super conduction filament wire used in, eg, shipboard propulsion, power sources for directed energy weapons). (France and Japan outstanding).

II Military List

All twenty existing items in the Military List have been subject to proposals for 'redefinition' (mostly amendments of an editorial nature in the interests of clarity) and the United States have proposed two new items covering artificial graphites and laser systems. Agreement is not expected to be difficult to achieve on any of these proposals, and indeed has already been reached on the following, which entail editorial changes only unless shown otherwise -

- ML2 - Large calibre armaments
- ML5 - Fire control equipment and rangefinders
- ML7 - Toxicological agents and tear gas
- ML10 - Aircraft and Helicopters
- ML14 - Specialised Military training equipment
- ML17 - Miscellaneous Equipment and Materials (United States proposal to delete bayonets agreed since neither bayonets nor their materials of manufacture are considered developing technology and are of minimal strategic concern)
- ML19 - Environmental chambers

In addition, the United Kingdom has agreed to the proposed amendments to the following items, on which confirmation by other countries is still awaited -

- ML3 - Ammunition (Belgium, France and Japan awaited)
- ML4 - Bombs, Torpedoes, Rockets and Missiles (France and Japan awaited)
- ML6 - Tanks and Vehicles (France awaited)
- ML15 - Military Infrared and Image intensifier equipment (Canada and Denmark awaited)
- ML18 - Production equipment for ML items (Denmark and Italy awaited)
- ML N12 - Laser systems (Denmark, France and Japan awaited).

On the remaining items discussions are still continuing -

- ML - Small Arms and Machine guns
Belgium is reconsidering its proposal to exempt sporting guns because of the difficulty in differentiating between military end uses.
- ML8 - Powders, Explosives, Propellants and Fuels
The United States are to redraft their proposal to avoid both double coverage with Industrial List items, and embargoing certain general commercial substances.

- ML9 - Vessels of War and Special Naval Equipment
The United States are to redraft their proposed inclusion of Steel Alloys and Hull Penetrating fittings because of suggestions that these should be (or are already) covered by the Industrial List.
- ML11 - Electronic Equipment
The United States proposal to include computer software caused some difficulties over whether this should be included in the Industrial List item on Computers. A United States proposal clarifying existing definition agreed.
- ML12 - Photographic Equipment
United States proposed inclusion of Infra Red Line Scanners was redrafted at the table, and awaits agreement from capitals.
- ML13 - Special Armoured Equipment
United States to produce a revised version of their new definition of 'Armour Plate'. Belgium concerned that the sale of body armour for police use will be allowed.
- ML16 - Munitions components and materials
This item is to be amended since sub-item a. is now covered by ML4.
- ML20 - Cryogenic equipment
The United States proposal is close to agreement, but revisions required since coverage in the Industrial List is considered more appropriate.
- MLNI1- Artificial Graphites
These substances are now to be covered by ML4 so the United States proposal will be withdrawn.

ANNEX B

PART E: CONCLUSIONS AND RECOMMENDATIONS

68. The Working Party's broad conclusion is that there is clear scope for improving and tightening the enforcement of COCOM controls by the British authorities. Some of these improvements would require the allocation of further resources, in terms both of money and manpower; others may be achievable by reordering priorities and switching current resources. The Working Party stresses that publicity is a vital ingredient, necessary both to convince the United States and other allies that energetic steps to tighten up are being taken and to deter potential offenders. The equivalent American enforcement programme, including Operation Exodus, owes much to publicity and presentation although it also involved the recruitment of 160 additional enforcement officers in the seven month period from March to October 1982.

69. The Working Party's detailed conclusions are as follows.

Physical examination and control

70. The scope and value of increased physical control is clearly limited unless it can be targeted by accurate intelligence. Random blitzes are ineffective and would cause unacceptable disruption to trade. There is a prima facie need for experts in high technology to be available at short notice to examine particular shipments in order to determine their true identity; this task is beyond most Customs Officers.

Document verification

71. Pre-entering of shipments by exporters and improved legibility and accuracy of trade descriptions are pre-conditions for improvements in this area. If they can be achieved, Customs should concentrate more than in the past on uncovering potential misdescriptions. There could also be scope for enhanced scrutiny of computer prepared schedules if further resources were to be made available. A particular problem which should be further examined is the mismatch between TTC headings and the listing of controlled strategic goods. If this could be corrected, computer scrutiny would be much more effective.

Enhanced investigative activity into suspect firms

72. Improved information and intelligence, with more rigorous but selective follow-up of suspect firms, hold the key to improved licensing control and enforcement. Customs should pursue the possibility of setting up a small team of specialist investigators. There is room for greater co-ordination between our own and the enforcement agencies of other countries, in particular to tighten up on diversions through third countries. There is scope for more regular exchanges between enforcement officials in COCOM capitals. Further initiatives in this whole area in COCOM should be examined.

Improved information on suspect transactions

73. Similar considerations apply to controlling and checking individual shipments and transactions, on a routine operational basis. A confidential network of designated officials in the DTI, MOD, FCO, Customs and the intelligence agencies, who can quickly and effectively exchange all relevant information, should be created, possibly including the setting up of a centralised data bank. The JIC machinery should review the intelligence requirement laid upon the intelligence community in this respect. Efforts should also be made to improve the exchange of information internationally. Advance information of US denial lists would be particularly valuable.

Publicity, including advice to businessmen

74. As already noted, publicity has a major role to play in improved enforcement. General awareness of COCOM controls, the reasons for them and the potential penalties for evasion should be increased. A better flow of information to and from industry is vital.

Sanctions/Penalties

75. Stiffer penalties for evasions are likely to be needed although they could not be introduced for COCOM offences in isolation. The Keith Committee on the enforcement powers of the Revenue Departments whose final report is expected later this year may have something to say on the subject of penalties

generally. Customs should be less willing to compound in future and more willing to give publicity to cases of evasion which come to light. The expulsion of Sovbloc intelligence officers when detected in unacceptable activity relating to technology transfer should continue.

Resource implications

76. As noted, many of the recommendations outlined above have significant resource implications for the Departments concerned. These are set out in Annex C. The case for increased resources should be considered by Ministers collectively; it would be unreasonable to expect individual Departments to bear the cost of a policy imposed for reasons which go beyond the confines of their own Departmental responsibilities.

Follow-up

77. A small inter-Departmental Enforcement Unit, coordinated by the DTI and reporting to ODO(SE), should be created. Its task should be to consider in greater detail and on a permanent basis the problems of improved enforcement which this report has identified.

Recommendations

78. The Working Party's recommendations are as follows:

- a. experts in high-technology should be available to examine suspect shipments at short notice (paras 45 and 70);
- b. Customs should examine the scope for enhanced scrutiny of computer schedules (paras 48, 49 and 71);
- c. Customs should create a small team of specialist investigators (paras 54 and 72);
- d. international cooperation with other enforcement agencies should be increased, particularly to tighten up on third-country diversion (paras 53 and 72)

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- e. COCOM should do more work in the field of enforcement (paras 52, 57 and 72);
- f. a confidential network of designated officials in the DTI, MOD, FCO and the intelligence agencies should be created (paras 56 and 73);
- g. greater publicity should be given to the penalties to the West of technology transfer and to the increased steps being taken to prevent it (paras 58 to 63 and 74);
- h. stiffer penalties for infractions should be introduced and the practice of compounding abandoned wherever possible (paras 64 to 67 and 75);
- i. an inter-Departmental Enforcement Unit should be created, coordinated by DTI and reporting to ODO(SE) (para 77).

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RESOURCE IMPLICATIONS OF WORKING PARTY'S RECOMMENDATIONS

- a. Experts in high technology to be available to examine suspect shipments*
An additional 2X Grade 1 Professional and Technical Officers (PTOs) for IT Division, DTI.
Annual staff costs would amount to £33,000
- b. Study of improved methods of scrutiny of computer prepared schedules
An additional complement of between 3 EOs (for a limited programme) and 3/EOs and 12 data processing operatives (for a more ambitious programme) for Customs and Excise. Annual staff costs for the limited scheme would be £37,000; for the more ambitious programme the cost would be £107,000
- c. Creation of a small team of specialist investigators in Customs and Excise
- 1 x Senior Investigating Officer
3 x HEOs
3 x EOs
1 x CO
Annual staff costs would amount to £120,000
- (Note: there would be a small additional resource cost to the Administrative and Legal Branches, depending on the results achieved).
- d. Additional DTI requirement to support the Customs investigation team*
- 2 x Grade 2 PTOs
1 x HEO
Annual staff costs would amount to £40,000

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e. Increased publicity, including advice to businessmen

Additional demands would be placed on DTI services, including Regional Offices. The extent to which they could be absorbed without additional resources (other than those in a. and d. above) would depend on the scale and duration of the programme.

* Note: These estimates assume that the necessary electronic and computer equipment will be made available; a feasibility study is currently under way within the DTI for the installation of this equipment.

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